Dear Colleague,

Pensions Bill 2013/14 – Grand Committee

During the course of our discussions on Wednesday 18 December I offered to check a couple of points with colleagues in other Departments and to clarify the situation with regards to the impact of the Part 1 reforms and means-testing.

National Insurance credits and spouses/civil partners of service personnel

I offered to speak to colleagues about whether there were any known issues with the take-up of credits for spouses/civil partners of service personnel. The Ministry of Defence is looking to publish an update to the existing guidance on the scheme to help improve awareness and encourage a higher take-up – however officials are not aware of any particular issues in relation to applications and take-up.

In terms of other data and impacts on this group, as I said, my officials are working with the Ministry of Defence and HM Revenue and Customs to provide updated information as soon as possible.
**Impact of the Part 1 reforms on eligibility for means-tested benefits**

There was considerable discussion about the impact that the single-tier reforms have on the level of means-testing. This was prompted by a figure on page 33 of the Single Tier Impact Assessment that states that there is a 1 percentage point reduction in Guarantee Credit eligibility resulting from Single Tier.

I would like to make clear that this does not mean that 99% of pensioners who are receiving the single-tier pension in 2020 will be eligible for Guarantee Credit or that 99% of those would have been on Guarantee Credit, remain on it.

It is a 1 percentage point reduction from 7% to 6% in eligibility for Guarantee Credit in the whole single-tier population at 2020. This represents a fall of around 15%-20% of the total eligible for Guarantee Credit in these cohorts.

There are a number of reasons why there will still be people on Guarantee Credit in 2020 despite the fact that the full rate Single Tier will be above the basic level of the Guarantee Credit (Standard Minimum Guarantee). There will, of course, be people who do not get the full rate of Single Tier. There is also a significant, and growing, proportion who have ‘additional amounts’ (for disability, caring or mortgage interest) that take their appropriate minimum guarantee above the full rate of Single Tier.

Setting the full rate of Single Tier above the Standard Minimum Guarantee means there is no longer the need for a complex reward for savings – those with a full rate of Single Tier will see more of their savings and earnings. Charts 4.3 and 4.4 in the Impact Assessment show the proportions of pensioners who would keep at least 80p of an extra £1 of income after means-tested benefits have been calculated. These numbers improve across virtually the whole income distribution, but especially so for the bottom income quintile.

Overall, the single-tier reforms do reduce the number of households receiving means-tested support by 350,000 households in the 2040s and the number on Guarantee Credit by 50,000 households. As stated in the Impact Assessment, the ending of Savings Credit is the main driver of the reduction in the number of people qualifying for Pension Credit. However the reduction in the number on Guarantee Credit is as a result of the household receiving more State Pension due to the reforms.

Further detail on means-testing is provided in Chapter 4 of the Single Tier Impact Assessment.
Legal position on restricting protection for those affected by the end of derived entitlement to those ordinarily resident in this country

I agreed to set out the legal position with regard to containing any protection for those affected by ending derived entitlements to people ordinarily resident in this country.

EC Regulation 883/04 on the coordination of social security systems applies in the European Economic Area, or EEA, and Switzerland. It prevents migrants and their families being disadvantaged compared to people who spend their lives in just one of the member states.

The UK state pension is covered by that regulation which is why, despite the fact that our domestic legislation limits the up-rating of UK state pensions to people who are ordinarily resident in GB, we up-rate the state pension when it is in payment to a person living in another EEA country.

Similarly, our view is that in order to comply with EU law, any arrangements that provide for an amount of state pension to be payable - such as envisaged by the amendments designed to mitigate the loss of derived entitlement - could not be limited to those who are ordinarily resident in the UK but would also have to apply to people who are resident in other EEA countries or Switzerland.

In contrast, Pension Credit, which is a means-tested benefit, is classified as a special non-contributory benefit under the EU Regulation, and as such is not exportable.

In our session on Wednesday there was a reference to the amendment made during Committee stage in the Commons to restrict Bereavement Support Payment to persons ordinarily resident in Great Britain.

But as the Pensions Minister said when he introduced the amendment, it “would prevent persons living in a non-EEA or non-reciprocal agreement country, without a close connection to Great Britain, coming to the country to claim the benefit” (Hansard, Public Bill committee debates, 8th sitting, 4th July 2013 column 266).

The important point is that, irrespective of the terms of the domestic law, it will not prevent the UK from paying the benefit to claimants resident in another EEA member state if the UK is held to be the competent state under EU coordination provisions.

On a related matter, there would also be an issue with people resident in some of those countries outside the EEA with which the UK has a bilateral agreement on matters relating to pensions. For example, in the USA our bilateral agreement operates on the principle that a person should not be disadvantaged by reason of living in the USA rather than the UK.
We would potentially face similar difficulties imposing restrictions in those areas, too.

**Further figures on the National Insurance rebate following the end of contracting out**

I offered to speak with colleagues at Her Majesty’s Treasury (HMT) to see if there was a further breakdown of the £3 billion figure – the total increase in National Insurance liabilities for public sector employers resulting from the end of contracting out. Unfortunately no further breakdown is available.

I did mention that we are seeking to arrange a roundtable to discuss this issue with HMT and the Local Government Association. This has been scheduled for 14 January 2014. If you would like to attend, please let my office know, by email at minister.welfarereform@dwp.gsi.gov.uk and I will, subject to the level of interest, send you an invite early in the New Year.

I hope this letter is helpful and I will place a copy of the letter in the House library. If you would like any further information on the Pensions Bill, please contact the Pensions Bill team, by email at pensions.bill@dwp.gsi.gov.uk or by phoning the Bill Manager, Michael Cordy, on 02074497508.

Yours sincerely,

David

Lord Freud

Minister for Welfare Reform